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U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

April 13, 2000

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Dear Democratic Colleague:

Late last night, the Republicans filed the budget resolution conference agreement with the Rules Committee and the bill is scheduled for floor consideration this morning. Attached is a summary of the highlights of the conference agreement. I wanted you to have this summary in time for the House floor debate this morning. But, since we were given so little time to review the Republican report, our summary is relatively brief and is based on the best information available at the time.

The conference agreement is not significantly different from the budget resolution which passed the House in March with virtually every Democrat opposing it. The conference agreement also looks very similar to the 1999 budget plan, which was honored in the breach. To make room for a large tax cut, this year's resolution proposes deep cuts in domestic programs much like those proposed last year. Those cuts were rejected by both Republicans and Democrats when the Congress considered the appropriations bills.

Like the House-passed bill, this year's conference agreement fails to provide a universal Medicare prescription drug benefit. Instead, the conference agreement states that the Ways and Means Committee *may* report a bill which costs \$40 billion with so-called Medicare "reforms" and prescription drugs. This means that virtually all the money could be used for "reforms" and virtually nothing is left for prescription drugs. Like the House-passed bill, the conference agreement also fails to extend the solvency of the Social Security or Medicare programs for even one day. Like the House-passed bill, the conference agreement comes perilously close to spending the Social Security surplus in the next five years – and it only succeeds if you accept the deep and implausible Republican domestic discretionary spending cuts.

The Republicans propose to cut non-defense discretionary spending in budget authority by \$121.5 billion below inflation over the next five years. If their cuts were enacted, the harm to all Americans who depend on domestic programs would be serious. To cite just a few examples, this resolution would require us to –

- Eliminate Head Start for more than 40,000 children and their families by 2005.
- Cut the Community Development Block Grant, Rural Community Advancement, Empowerment Zones and Economic Development Assistance by almost one-third by 2005.
- Cut more than 600 FBI agents and 500 Drug Enforcement Administration agents by 2005.
- Cut energy research by 29 percent by 2002 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.
- Provide Pell Grants to 316,000 fewer low-income students by 2005.

Republican conferees did make a few changes to the House-passed bill. They increased defense spending by \$3.5 billion in 2001 while maintaining virtually the same deep cuts in non-defense spending. In addition, they reduced the size of their five-year tax cut by \$25 billion from at least \$200 billion to at least \$175 billion. But they keep the flexibility to increase tax cuts above \$175 billion if CBO's summer surplus projections are higher.

We will send you a lengthier and more detailed analysis of the conference agreement as soon as it is complete. In the meantime, if you have any questions, please feel free to call me or the House Budget Committee's Democratic staff.

Sincerely,

A handwritten signature in black ink, appearing to read "John M. Spratt, Jr.", with a stylized flourish at the end.

John M. Spratt, Jr.
Ranking Democratic Member



House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

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April 13, 2000. *Information about the conference agreement was not provided until late last night and is very sketchy. This memorandum is based on the best information available.*

The Republican Budget Resolution: Conference Agreement

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	15	29	36	42	48	171	893
Tax cuts	13	27	36	45	53	175	875
Medicare reform & drugs	2	5	8	11	14	40	155
Non-defense cuts	-12	-13	-19	-26	-32	-102	-312
Defense increases	2	3	2	3	2	12	8
Farm payments	2	1	2	2	2	9	19
Other mandatory policies	a	a	2	1	a	4	4
Interest costs of policies	1	2	4	6	8	21	145
Surplus w/o Social Security	8	2	1	1	a	12	-1

May not add due to rounding.

a = less than \$½ billion

** Outlay estimates for 2006-2010 were projected based on spending policies in 2001-2005. Revenue estimates assume a slightly slower growth rate than in last year's Republican tax cut.*

Debt Reduction and the On-Budget Surplus: Over five years, the conference agreement devotes \$12 billion, or 8%, of the on-budget surplus to debt reduction. The House Democratic substitute devoted 28% of the on-budget surplus to debt reduction.

Changes Made By Conference: The conference agreement is very similar to the House-passed budget resolution. Three of the more notable changes made in conference are:

- **Tax Cuts** — Conferees reduced the cost of the five-year tax cut by \$25 billion, from at least \$200 billion in the House to at least \$175 billion in conference agreement.

- **Discretionary Spending** — In 2001, conferees increased defense by \$3.5 billion and non-defense by \$0.2 billion in budget authority above the House-passed bill. From 2001-2005, conferees increased defense by \$3.1 billion and non-defense by \$16.6 billion in budget authority above the House-passed bill.
- **Appropriations Firewalls** — A firewall between 2001 defense and non-defense programs was established in the Senate and is enforced by a Senate point of order.

Tax Cuts: The conference agreement cuts taxes at least \$175 billion over five years — \$25 billion less than the House-passed budget plan.

- **Two Bills** — There will be two tax cut bills moving in the House and Senate, pursuant to a “reconciliation” directive. There is speculation that the first bill will be designed to elicit a veto and the second, a signature. The reporting dates are July 14 and Sept. 13. The House plan required four tax cut reconciliation bills, the Senate required one.
- **CBO Reestimates** — The tax cut can grow beyond \$175 billion to the extent CBO’s next forecast shows higher surpluses.
- **Long-term Costs** — The report is silent on the long-term costs of the tax cuts. Last year’s Republican tax cut totaled \$156 billion over five years and \$792 billion over ten. The \$875 billion ten-year estimate shown above assumes a slightly more modest growth rate.

Prescription Drugs and Medicare “Reform”: The conference agreement provides \$40 billion, split in any manner between prescription drugs and Medicare “reform” — the same as the House plan. Language applicable only to the Senate reserves \$20 billion for prescription drugs.

- **Drug Benefit** — Unlike the Medicare drug benefit in the Democratic budget, the Republican plan recently released by their Leadership does not cover all seniors under Medicare. Instead of a universal Medicare benefit, the Republicans provide low-income seniors with a voucher to purchase private drug coverage. About half of all Medicare beneficiaries would not qualify for the voucher.
- **Medicare “Reform”** — As in the House plan, prescription drugs can only be provided in a bill that makes unspecified “reforms” to Medicare. The undefined Medicare reform package may consist of increased provider payments or a major overhaul of the Medicare program. In the past, a key feature of Republican proposals to overhaul Medicare has been ending the universal entitlement to health care and replacing it with a voucher covering a portion of a person’s private insurance premiums.
- **No Required Action** — There is no “reconciliation directive” requiring a prescription drug bill. Thus, any prescription drug bill will be subject to filibuster and non-germane amendments in the Senate. The tax cuts, in contrast, are **required** and are protected from filibusters and non-germane amendments.

- **Democratic Budget Plan** — The Democratic plan provided \$40 billion solely for prescription drugs, did not make the funds contingent on unspecified “reform,” required committees to report the bill by June 22, and gave it “reconciliation” protection.

Social Security and Medicare Solvency: The conference agreement, like the House and Senate resolutions but unlike the House Democratic plan, does not extend the solvency of the Medicare or Social Security trust funds at all. Unlike the House and Senate resolutions, but like the House Democratic plan, the conference agreement covers the cost of recent changes in the Social Security earnings limit. Those changes increase Social Security outlays temporarily.

Appropriated Programs: Compared with CBO’s current services baseline (constant purchasing power), the conference agreement cuts Budget Authority for appropriated programs \$122 billion over five years, slightly less than in the House plan.

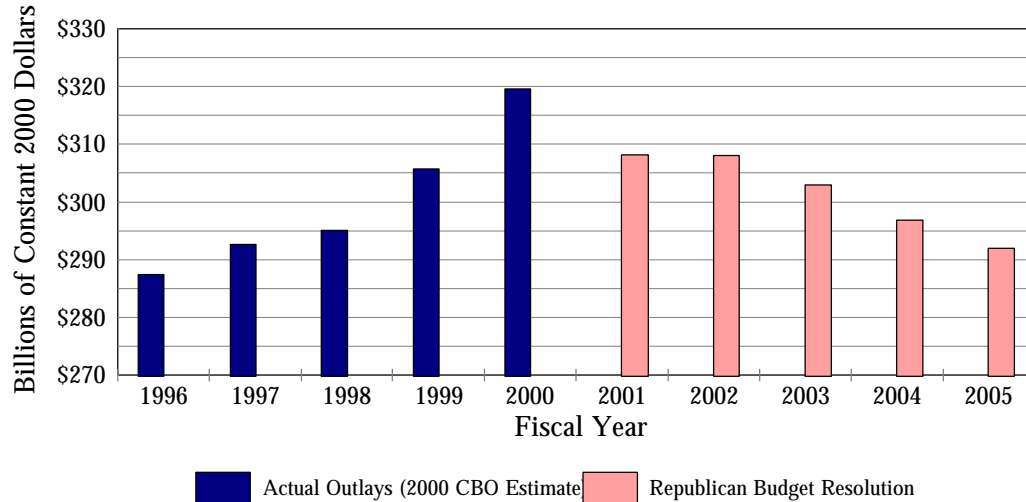
- **Firewalls between Defense and Non-Defense Programs** — Unlike the House plan, the conference agreement creates firewalls between defense and non-defense programs, enforced by a Senate point of order that can be waived only by 60 votes. These firewalls cover appropriations for 2001 at the following levels (in billions):

	BA	Outlays
Defense	310.8	297.7
Non-defense programs	289.5	327.4
TOTAL	600.3	625.1

- **Defense Funding** — 2001 BA is \$20.9 billion above a freeze. This figure is \$3.5 billion above the House resolution and \$4.5 above the President’s budget. Over five years, defense BA is \$28.5 billion above current services.
- **Non-defense Funding** — 2001 BA is \$6.7 billion below a freeze and \$19.5 billion, or 6.3%, below current services. Over five years, non-defense programs are below current services by \$121.5 billion in BA and \$101.6 billion in outlays. By 2005, these cuts represent a 9.8% loss of purchasing power. As shown on the next page, Congress has increased non-defense programs faster than inflation over the past four years, but now claims it will reverse course.
- **Education** — The conference agreement provides \$56.8 billion for 2001 appropriations for education, training, employment, and social services, almost \$5 billion less than the level in the House Democratic budget and the President’s budget. The conference agreement drops a bipartisan Senate amendment to raise the maximum Pell Grant to \$3,700 by reducing the size of the five-year tax cut by \$2.7 billion.

Outlays for Domestic Appropriations

Past vs. Future



- National Institutes of Health (NIH)** — The conference agreement increases NIH about \$1 billion above a 2000 freeze. For 1999 and 2000, Congress voted on a bipartisan basis to increase NIH funding by 15 percent per year. However, the increase for 2001 provided in the conference agreement is insufficient to continue the 15 percent annual increases required to double NIH funding by 2003.
- Science and NSF** — Funding for science, space, and technology is equal to the level in the House-passed budget. The House had added \$600 million to the Republicans' starting level due to Democratic efforts led by Rep. Rush Holt (D-NJ), who offered an amendment in Committee to increase funding for the National Science Foundation by \$675 million for 2001 (\$3.9 billion over 2001-2005).
- Environmental Programs** — The conference agreement cuts 2001 funding for natural resources and environmental programs by \$600 million in purchasing power. By 2005, the level in the conference agreement represents a \$2.9 billion (10.7%) cut in purchasing power. The conference agreement is silent regarding the President's Lands Legacy Initiative, but the funding levels leave little room for the President's proposal.
- Other Domestic Programs** — As in 1998 and 1999, the Congress is unlikely to make the cuts required by Republican budgets. However, it is worth taking the conference agreement at face value and considering the impact of the cuts. If applied across the board, they will wreak havoc on many programs, including the following examples:
 - Eliminate Head Start for more than 40,000 children and their families by 2005;
 - Cutting more than 600 FBI agents and more than 500 Drug Enforcement Administration agents by 2005;
 - Providing Pell Grants to 316,000 fewer low-income students by 2005;
 - Cutting funds to clean up 40 Superfund sites by 2005;

- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by almost one-third by 2005; and
- Cutting energy research by 29 percent by 2002 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.
- ***FY 2000 Supplemental Appropriations*** — The conference agreement allows \$5 billion for supplemental appropriations for the current fiscal year, \$3 billion less than in the appropriations bill reported to the House. (The conference report places the \$4 billion in 2000 defense funding added during House debate on the supplemental appropriation bill in 2001 rather than 2000.) The budget also assumes the repeal of \$7 billion in previously enacted outlay shifts, as requested by the President.

Farm Programs: The conference agreement provides \$5.5 billion in 2000 and \$8.8 billion over the five years 2001-2005 for increased payments to farmers. These amounts are similar to the those in the House resolution. However, the continued squeeze on appropriations to administer farm programs make delivery of these benefits problematic.

Low-Income Entitlements: The conference agreement provides about \$7 billion for low-income programs over five years, probably including some funds for EITC and Title XX Social Service Grants. These were not in the House-passed resolution. The House Democratic plan, in contrast, provided \$13 billion in increased funding *and* as much as \$24 billion in refundable tax credits, covering Medicaid and SCHIP, Food Stamps, Title XX, SSI, the EITC, the Dependent Care Tax Credit, and the Long-Term Care tax credit.

Military Retiree Health Care: The conference agreement includes funds to improve health care benefits for military retirees — \$50 million for 2001 and \$400 million over the 2001-2005 period. In contrast, the House Democratic plan provided \$5.4 billion for military retiree health improvements over the 2001-2005 period, and \$16.3 billion over the 2001-2010 period. In addition, the House Democratic alternative placed no conditions on the funding, and issued a reconciliation directive to the Armed Services Committee. A reconciliation directive requires the legislation to be reported and protects the it from filibusters and non-germane Senate amendments.

New Points of Order and Other Procedures: The budget includes the following new points of order, among others. All Senate points of order also apply to Senate consideration of conference agreements.

- ***Non-Defense Emergencies*** — Senate point of order against designating non-defense spending an emergency. Waivers require 60 votes.
- ***Advance Appropriations*** — House and Senate points of order against increasing the amount of 2002 advance appropriations above the existing 2001 level. Senate waivers requires 60 votes. The idea is to preclude further use of the “13-month fiscal year”

funding gimmick.

- ***Delayed Obligations*** — Two-year Senate point of order against provisions that delay the obligation of non-defense appropriations (unless that is the usual practice). This provision does not preclude delaying payments, as by shifting pay dates.
- ***Federal Reserve Surpluses*** — The Senate will not “score” (give credit to) provisions that capture more of the Federal Reserve’s annual surpluses for the Treasury.
- ***Directed Scorekeeping*** — One-year House point of order against the inclusion in a bill of language directing OMB and CBO to score the bill a specified way. This provision does not preclude the Budget Committee Chairman from altering CBO’s cost estimates.
- ***Precatory Amendments*** — Permanent Senate point of order against amendments to budget resolutions that are “predominately precatory,” such as Sense of Congress language.
- ***Firewalls*** — Senate point of order against breaching either the defense or non-defense BA or outlay levels in the resolution for 2001. Waivers require 60 votes. These levels may be exceeded by use of emergency designations, but non-defense emergency designations also require 60 votes.
- ***On-budget Deficits*** — House and Senate points of order against budget resolutions for 2001 or 2002 that show deficits in any year, excluding Social Security, except during recessions or wars. Senate waivers require 60 votes.
- ***2001 Surplus*** — House point of order against any bill that would cause the 2001 on-budget surplus to be less than \$7.9 billion, except due to emergencies.
- ***Entitlements and Tax Cuts*** — In the Senate, the tax cut may be increased to the extent the tax bill also contains additional entitlement cuts. However, revenue increases may not pay for entitlement increases.
- ***CBO Reestimates and Tax Cuts*** — In both the House and Senate, the tax cut may be increased to the extent CBO’s summer update projects bigger on-budget surpluses. (Spending programs may not be so increased.) The conference agreement fails to specify which of CBO’s three baselines should be used to determine whether the surplus has increased.